

Auditor's report

Greater Letaba Local Municipality

30 June 2017

Report of the auditor-general to The Limpopo Provincial Legislature and Council Greater Letaba Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Greater Letaba Municipality set out on pages ... to ... which comprise the statement of financial position as at 30 June 2017, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of my report, the financial statements present fairly, the financial position of the municipality as at 30 June 2017 and its financial performance and cash flows for the year then ended in accordance with South African standard of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act, 2016 (Act No. 3 of 2016) (Dora).

Basis for qualified opinion

Provision for debtors impairment

3. The municipality did not assess debtors individually to correctly determine the impairment provision as required by GRAP 104, *Financial Instruments*. I was not able to determine what the impairment charge against receivables and impairment losses expense should have been if GRAP 104 had been applied correctly as it was impractical to do so. Consequently, I was unable to determine whether any adjustment relating to provision for debt impairment stated at R24 545 889 (2016: R 9 513 611) in the financial statements and the consequential impact on receivables from non-exchange transactions, consumer debtors, surplus for the period and accumulated surplus, was necessary.

Irregular expenditure

4. The municipality incurred expenditure in contravention of the supply chain management requirements, resulting in irregular expenditure of R25 041 311: (2016: R95 035 176) as disclosed in note 34 to the financial statements. The municipality did not have adequate systems in place to identify and report on all irregular expenditure incurred. Consequently, I was not able to determine the full extent of the understatement in irregular expenditure disclosed at R177 819 028 (2016: R152 777 717) in the financial statements as it was impractical to do so.

Context for the opinion

5. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor-General's responsibilities for the audit of the financial statements section of my report.
6. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

9. The corresponding figures for 30 June 2016 have been restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2016 identified during the year ended 30 June 2017.

Significant uncertainties relating to litigations

10. As disclosed in note 31 to the financial statements, the municipality is the defendant in some litigation cases. The municipality is opposing these litigations. The ultimate outcome of the matters cannot currently be determined and no provision for any liability that may result thereof has been made in the financial statements.

Material losses – electricity

11. As disclosed in note 42 to the financial statements, material losses of R6 986 097 (2016: R2 247 610) on electricity distribution were incurred as a result of illegal connections, faulty meters, incorrect meter readings and other sundry distribution losses.

Unauthorised expenditure

12. As disclosed in note 32 to the financial statements, the municipality incurred unauthorised expenditure amounting to R22 473 869 (2016: R9 393 411) due to the votes being overspent.

Fruitless and wasteful expenditure

13. As disclosed in note 33 to the financial statements, the municipality incurred fruitless and wasteful expenditure amounting to R147 655 (2016: R302 102) as a result of inventory losses and interest on late payments.

Additional matter paragraphs

14. The following additional matter paragraphs will be included in our auditor's report to draw the users' attention to matters regarding the audit, the auditor's responsibilities and the auditor's report:

Unaudited supplementary information

15. The supplementary information set out on pages x to x does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Responsibilities of accounting officer

16. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
17. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting officer either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

18. My objectives are to obtain reasonable assurance about whether the financial statements as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
19. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

20. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express

assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

21. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
22. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives development priorities presented in the annual performance report of the municipality for the year ended 30 June 2017:

Development priorities	Pages in the annual performance report
KPA 2: Basic service delivery	x – x
KPA3: Local economic development	x – x

23. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
24. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

Development priority KPA2: Basic service delivery

Various indicators (Projects)

25. The municipality did not have an adequate record keeping system to enable reliable reporting on achievement of the indicators listed below. Sufficient appropriate audit evidence could not be provided in some instances. In other cases, the evidence provided did not agree to the reported achievements, which resulted in misstatements of the reported achievements. I was also unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements.

Performance indicator	Reported achievement	Audited value
To construct Modjadiskloof sidewalks by 30 June 2017.	Construction of Modjadiskloof sidewalks completed.	0

To construct Modjadiskloof gabions by 30 June 2017	Construction of Modjadiskloof gabions completed	0
To construct Kgpane sidewalks by 30 June 2017	Construction of Kgpane sidewalks completed	0
To construct Sekgopo gabions by 30 June 2017	Construction of Sekgopo Gabions completed	0
To upgrade Matshwi street from gravel to paving for 1.8 km by 30 June 2017	Upgrading of Matshwi street paving for 1.8 km completed.	0
To upgrade Seatlaleng street from gravel to paving for 1.8 km by 30 June 2017	Contractor appointed, Project under construction	0
To upgrade Sephukubye street from gravel to paving for 1.8 km by 30 June 2017	Upgrading of Sephukubye street paving for 1.8 km completed	0
To upgrade Kherobeng street from gravel to paving for 1.8 km by 30 June 2017	Upgrading of Kherobeng street paving for 1.8 km completed	0
To upgrade Refilwe street from gravel to paving for 1.8 km by 30 June 2017	Upgrading of Refilwe street paving for 1.8 km completed	0
To upgrade Shawela street from gravel to paving for 1.8 km by 30 June 2017	Upgrading of Shawela street paving for 1.8 km completed	0
To Design Itieleng Sekgosese street from gravel to paving for 1.8 km by 30 June 2017	Designs for Itieleng Sekgosese street completed	0

Indicator: Land use application processed within 90 days

26. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the target of 71% of land use applications processed within 90 days of receipt. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 71% of land use applications processed within 90 days of receipt.
27. The municipality did not implement the controls to ensure that Land use applications are verifiable. Land use application files were not provided for auditing.

Development priority KPA3 – Local economic development

Indicator: Create 800 jobs by through municipal capital projects and LED by 30 June 2017

28. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of target 839 jobs. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 839 jobs.

Indicator: Conduct four agricultural forum meeting during the year

29. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the target of four agriculture forums coordinated. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of four agriculture forums coordinated.
30. The municipality did not implement the controls to ensure that the four agricultural forum meetings held during the year were verifiable. Evidence presented shows that the municipality managed to convene three agricultural form meeting during the year however four was reported.

Indicator: To support the 120 SMME through supply chain management

31. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of target 216 SMME supported. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 216 SMME supported.
32. The municipality did not develop and implement the criterion to be used for selecting the service providers to be used as SMME. This resulted in the municipality reporting on the service providers that are not SMME.

Other matters

33. I draw attention to the matters below.

Achievement of planned targets

34. Refer to the annual performance report on pages x to x for information on the achievement of planned targets for the year and explanations provided for the underachievement of a number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs x to x of this report.

Adjustment of material misstatements

35. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of basic service delivery and local economic development priorities. As management did not correct the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Introduction and scope

36. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
37. The material findings on compliance with specific matters in key legislations are as follows:

Budget

38. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R22 473 869, which is in contravention of section 62(1)(d) of the MFMA.

Annual financial statements, performance and annual reports

39. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, liabilities, expenditure, revenue and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

40. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of supply chain management regulation (SCM regulation) 17(a) and (c).
41. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
42. The preference point system was not applied in some procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and SCM regulation 28(1)(a).
43. Contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
44. Construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board (CIDB) and did not qualify for the contract, in contravention of section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A).
45. The performance of contractors or service providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

Revenue management

46. A credit control and debt collection policy was not implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of the MFMA.
47. A policy on the levying of rates on rateable property within the municipality was not implemented, as required by section 3(1) of the Property Rates Act and section 62(1)(f)(ii) of the MFMA.

Expenditure management

48. Effective steps were not taken to prevent irregular expenditure amounting to R25 041 311, as required by section 62(1)(d) of the MFMA.
49. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R147 655 in contravention of section 62(1)(d) of the MFMA.
50. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R22 473 869, as required by section 62(1)(d) of the MFMA.

Assets management

51. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Consequence management

52. Irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA
53. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Other information

54. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the audit committee's report. The other information does not include the financial statements, the auditor's report thereon and those selected development priorities presented in the annual performance report that have been specifically reported on in the auditor's report.
55. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
56. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is not materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

57. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate, however, if it is corrected this will not be necessary.

Internal control deficiencies

58. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

59. There was no detailed review of the financial statements and the annual performance report, resulting in several misstatements not identified and corrected.

Financial and performance management

60. The basic accounting principles of daily and monthly accounting and reconciling have not been implemented.

61. Supply chain management processes were inadequate resulting in irregular expenditure.

62. The financial statements and other information to be included in the annual performance report were not reviewed for accuracy and completeness by the accounting officer.

Governance

63. The municipality did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks, are conducted and that a risk strategy to address the risks is monitored.

64. The internal control oversight and monitoring mechanisms of the audit committee and the internal audit were not functioning optimally, as many control weaknesses were only detected during the audit of the financial statements and performance information.

Auditur – General

Polokwane

30 November 2017



Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor's report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control.
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Greater Letaba Municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and here applicable, related safeguards.